

REGULAR MEETING

PRESENTER: Chairperson

Please see the attached minutes of the April 2, 1998, Teachers' Retirement Board meeting.

PROPOSED
MINUTES OF
TEACHERS' RETIREMENT BOARD
OPEN SESSION
THURSDAY, APRIL 2, 1998
STATE TEACHERS' RETIREMENT SYSTEM
ROBYN D. MILLER BOARD ROOM
7667 FOLSOM BOULEVARD
SACRAMENTO, CALIFORNIA

BOARD MEMBERS PRESENT

Emma Zink, Chairperson
Yvonne Gallegos Bodle
George Fenimore
Gary Lynes
Marty Mathiesen
Lillian Raffel
Fred Buenrostro, representing State Controller, Kathleen Connell
Richard Whitmore, representing Superintendent of Public
Instruction, Delaine Eastin
Ted White, representing State Treasurer, Matt Fong
Robin Dezember, representing Director of Finance, Craig Brown

STAFF PRESENT

James D. Mosman, Chief Executive Officer
Chris Waddell, Chief Counsel
Elleen Okada, DCEO, Investments
Michael Carter, DCEO, Client Benefits & Services
Laurence Martin, DCEO, Information and Financial Services
Peggy Plett, DCEO, Administration
Jennifer DuCray-Morrill, DCEO, Gov. Affairs & Program Development
Ken Costa, Director, START Project
Mary Miles, Administrative Assistant

OTHERS PRESENT

Catherine Cole, Towers Perrin
Beverly Carlson, California Teachers Association
Dave Walrath, California Teachers Association
Dorothy Moser, United Teachers Los Angeles - Retired
Dolores Sanchez, California Federation of Teachers
Patrick McCallum, FACCC

A quorum being present, Chairperson Zink called the meeting to order at 10:43 a.m.

II. **APPROVAL OF MINUTES OF MARCH 5, 1998 MEETING**

MOTION duly made by Mr. Fenimore, seconded by Mr. Lynes, and carried to approve the Board Meeting Minutes of March 5, 1998.

III. **ANNOUNCEMENTS**

There were no announcements.

IV. **COMMITTEE REPORTS**

INVESTMENT COMMITTEE: Mr. Lynes reported that the Committee, in open session, had a panel discussion on the System's equity structure outside the United States. The Committee received and approved the semi-annual reports on Alternative Investments and Real Estate, and received a presentation on the Role of Real Estate. The Committee also agreed to sponsor legislation allowing changes to the Member Home Loan Program. The Committee received reports from Real Estate, Credit Enhancement, Alternative Investments, Litigation, and the Chief Investment Officer.

In closed session, the Committee approved three investment decisions pending successful negotiations with CVC Equity, for up to \$300 million; First Reserve VIII, for up to \$100 million, and GTCR VI, for up to \$150 million. Mr. Lynes provided records of the votes.

BY CONSENSUS, the report of the Investment Committee was accepted.

AD HOC GOVERNANCE COMMITTEE: Mr. Whitmore stated the Committee recommended that the Board adopt the Gifts and Contributions Policy with the following clarifications. The policy would not apply to the Governor or candidates for office of Governor; will be applied to vendors as contracts turn over or are renewed; use FPCC rules and guidelines for determining who will be required to file disclosure statements; that brokerage firms are covered; that reports would be included in the Agenda and the CEO will make the information accessible to the Board; and that the Board acknowledges that violations will require external reporting. The policy was amended to include contributions and/or gifts.

MOTION duly made by Mr. Whitmore, seconded by Mr. White, and carried to adopt the policy on Contributions and Gifts as amended.

Mr. Whitmore also reported that the Committee received a presentation by Cortex on Board Governance issues.

BY CONSENSUS, the report of the Ad Hoc Governance Committee was accepted.

BENEFITS AND SERVICES COMMITTEE: Ms. Bodle reported that the Committee received a presentation from the Mercer Group on the Optional Supplemental Benefit Study and a briefing on the Client Advisory Committee meeting, and received reports on the Warrant Stub Message and the Level of Service Standards.

BY CONSENSUS, the report of the Benefits and Services Committee was accepted.

V. **CHIEF EXECUTIVE OFFICER REPORT**

Mr. Mosman discussed reserving the July meeting for a two-day planning session. The first day would address investment issues, and the second day would address benefit issues and may include the Cortex presentation.

VI. **TRAVEL REPORT**

Mr. Mosman presented this item.

MOTION duly made by Mr. Mathiesen, seconded by Ms. Bodle to approve the requests for travel as presented.

Discussion ensued regarding the travel policy and the need for additional clarification on specified trip categories and authorization to represent the Board at conferences. Mr. Mosman was directed to put these issues on the next agenda of the Ad Hoc Governance Committee.

Mr. Buenrostro requested that the motion be split between the two specific travel requests. Mr. Mathiesen and Ms. Bodle agreed to split the motion. Discussion continued. Mr. Whitmore called for the question.

MOTION duly made by Mr. Mathiesen, seconded by Ms. Bodle, to approve the travel request for Ms. Bodle to attend the IIR Conference on Understanding Investment Policies and Guidelines. ROLL CALL: Ms. Bodle, and Messrs. Lynes and Mathiesen voted yes. Ms. Raffel and Messrs. Fenimore, Dezember, Buenrostro, Whitmore voted no. Mr. White abstained. Motion did not carry.

MOTION duly made by Mr. Mathiesen, seconded by Ms. Bodle, and carried to approve the travel request for Mr. Lynes, Ms. Zink, and Mr. Mitchell to attend the IFE Market Makers Seminar in Carlsbad in June.

MOTION duly made by Mr. Lynes, seconded by Mr. White, and carried to accept the travel summaries as presented.

VII. **UPDATE ON LEGISLATION**

STATE: Ms. DuCray-Morrill presented comparisons of the proposed benefit enhancement legislation, a cost matrix of proposed benefit improvements, and potential funding sources. Mr. Buenrostro requested that staff include information on PERS' Tier 2 and the proposed Tier 1½.

Ms. Cole, representing Towers Perrin, provided a presentation on the Retirement Plan Study.

The Board recessed from 12:50 to 1:15 p.m.

AB 2616 (Prenter): This bill would incrementally increase the benefit age factor. Staff recommended that the Board defer action pending more detailed information and discussion. Mr. White requested staff respond to how this bill addresses the policy of retaining teachers. Mr. Walrath, CRTA, expressed his concern on deferring action on the benefit enhancement bills because it would send a confused message to the legislature if the System does not take a position. Ms. Moser, UTLA-Retired, requested that if no position is taken today, that staff attend the legislative hearings to report that the System is studying the bill.

MOTION duly made by Ms. Raffel, seconded by Mr. Fenimore, and carried to take an under study position on AB 2616. Mr. Dezember abstained.

AB 2766 (Assembly PER&SS): This bill contains two provisions; 1) would add a definition of final compensation for specified LAUSD members, and 2) provide for the return to an unmodified allowance for certain members who retired prior to 1991 -- this provision is being withdrawn. Staff recommended that the Board adopt an oppose position on provision 1 of AB 2766. Mr. Walrath, CRTA, concurred that CRTA has requested that the authors of SB 2766 withdraw provision 2.

MOTION duly made by Mr. Whitmore, seconded by Mr. White, and carried, to adopt an oppose position on provision 1 of AB 2766. Ms. Bodle and Mr. Dezember abstained.

AB 2768 (Honda): This bill would require that the four "teacher" members of the Board be elected. Staff recommended that the Board not take a position on this bill.

MOTION duly made by Mr. White, seconded by Mr. Lynes, and carried to not take a position on AB 2768. Ms. Bodle and Mr. Dezember abstained.

SB 1486 (Rainey): This bill authorizes a retired member to designate a new spouse as the option beneficiary under certain circumstances. Staff recommended that the Board adopt a support, if amended position.

MOTION duly made by Mr. Mathiesen, seconded by Mr. Lynes, and carried, to adopt a support, if amended position on SB 1486. Mr. Dezember abstained.

Mr. Herzer, member, thanked the Board for supporting SB 1486 and further requested that the time limit of one year for the effective date of change be reduced. Ms. DuCray-Morrill stated that staff would be requesting that

the bill be changed to reflect the effective date of change to one year after marriage.

Mr. Buenrostro arrived at 1:50 p.m.

SB 1528 (Schiff): This bill would authorize STRS to offer health, vision and dental insurance benefits to STRS members. Staff recommended that the Board adopt a support, if amended position. Mr. White requested that staff study offering this benefit to both active and retired teachers before taking a position on this bill.

MOTION duly made by Mr. White, seconded by Mr. Lynes, and carried to adopt a support, if amended position on SB 1528 with the understanding that staff will study both active and retired teachers as an entire pool. Mr. Dezember abstained.

SB 1753 (Schiff): This bill prescribes procedures on closed session matters and disclosure of campaign contributions. Staff recommended that the Board adopt a neutral, if amended position. Mr. Mosman stated that staff would seek an amendment that would allow STRS staff the ability to carry out its due diligence.

MOTION duly made by Mr. Lynes, seconded by Ms. Raffel, and carried to adopt a neutral, if amended position on SB 1753. Mr. Dezember, Mr. White, and Mr. Whitmore abstained.

SB 2224 (Lee): This bill would provide for the return to an unmodified allowance for certain members who retired prior to 1991 under specified conditions. Staff recommended that the Board defer action for additional study and discussion.

MOTION duly made by Ms. Raffel, seconded by Mr. Lynes and carried to adopt an under study position on SB 2224. Mr. Dezember abstained.

Mr. Mathiesen left at 1:58 p.m.

Mr. Walrath, CRTA, thanked staff for looking at these various issues and encouraged the Board to continue to look at potential benefit enhancements. Mr. McCallum, FACCC, asked that the Board look at both an adequacy and retention approach. Ms. Sanchez, CFT, applauded the Board's proactive position and made various changes to the Legislative Summary Report.

Mr. Fenimore left at 2:15 p.m.

Ms. DuCray-Morrill was directed to develop additional information based on a normal retirement at 60 and 65, to focus on both retention and adequacy, address replacement

ratio from 80 to 85% and the shared responsibility between the employee and the employers, and information on the DROP Plan. Staff was also requested to seek information that indicates that a greater benefit actually produces retention. Mr. Whitmore volunteered arranging a presentation on the teaching population.

Ms. Bodle and Mr. Raffel left at 2:16 p.m.

FEDERAL LEGISLATION: Ms. DuCray-Morrill had nothing to add to the prepared agenda material.

VIII. **CASH BALANCE PLAN UPDATE**

Ms. DuCray-Morrill was directed to reschedule this presentation for the next Board meeting.

IX. **DEFERRED RETIREMENT OPTION PLAN**

Ms. DuCray-Morrill was directed to reschedule this presentation for the next Board meeting.

X. **MINORITY & WOMEN BUSINESS ENTERPRISE PROGRAM**

Ms. Plett reported that there would be minimal impact to the System regarding the change in the program.

XI. **START PROJECT UPDATE**

Mr. Costa provided a brief update on the START Project. The scheduled presentation will be deferred to the May Board meeting.

XII. **QUARTERLY LITIGATION REPORT**

Mr. Waddell presented this item.

XIII. **STATUS OF FIDUCIARY COUNSEL**

Mr. Waddell was directed to have Mr. Lanoff consult with his California-based partner prior to the next Investment Committee meeting and defer the item to the next meeting.

XIV. **OPPORTUNITY FOR STATEMENTS FROM THE PUBLIC**

There were no statements.

XV. **ADJOURNMENT**

Chairperson Zink went directly into Closed Session to discuss investment issues at 2:27 p.m.

At 2:32 p.m., Chairperson Zink returned to open session. There being no further business to conduct, Chairperson Zink adjourned the meeting at 2:32 p.m.

James D. Mosman, Chief Executive
Officer and Secretary to the
Teachers' Retirement Board

Emma Zink, Chairperson